New Nouveau Brunswick
CANADA

# 2014-2015 First Quarter Report


## Hon. Blaine Higgs

Minister of Finance


July 2014

**2014-2015 First Quarter Report**

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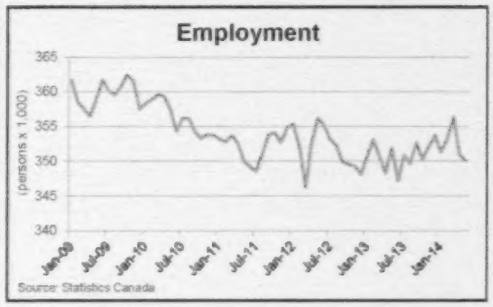
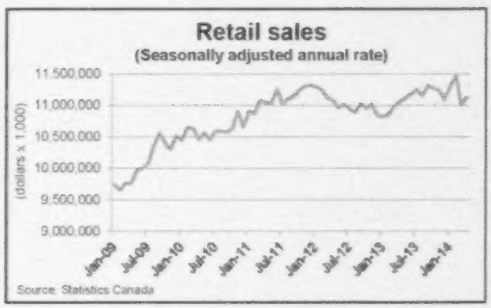
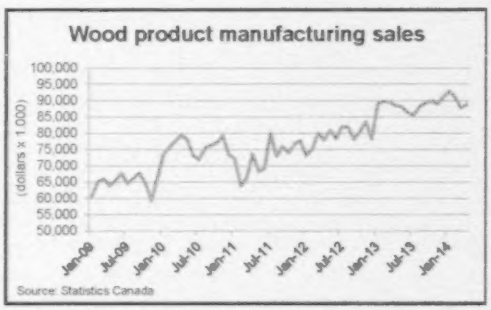
Think Recycling!

## 2014 Economic Update




| New Brunswick Economic Indicators | | | |
|---|---|---|---|
| | 2012 | 2013 | 2014F |
| Real GDP | -1.1 | 0.0 | 1.1 |
| Wages and salaries | 1.8 | 1.5 | 1.8 |
| Employment | -0.2 | -0.1 | 0.6 |
| Unemployment rate (%) | 10.2 | 10.4 | 10.3 |
| Consumer Price Index | 1.7 | 0.8 | 1.4 |
| Source: Statistics Canada | | | |
| % change unless otherwise indicated | | | |

- The International Monetary Fund (IMF) expects global activity to strengthen in 2014, with economic growth of 3.6 per cent. Overall, growth expectations are in-line with their previous forecast, with a minor re-allocation of growth from emerging economies to advanced economies.

- Real GDP in the U.S. decreased at an annual rate of 2.9 per cent in the first quarter of 2014, due mainly to a harsh winter, a struggling housing market and weak international demand. The slow start resulted in the IMF downgrading its 2014 forecast to 2.0 per cent.

- As of first quarter, Canadian real GDP is up 2.2 per cent over prior year levels. Uncertain global and domestic economic conditions have dampened non-energy exports and business investment. However, a gradual strengthening of the global economy should support improved growth prospects.

- The consensus private sector forecast for New Brunswick real GDP growth, for 2014, currently stands at 1.1 per cent.

- Employment is up 0.7 per cent over prior year levels, while gains in full-time employment (+1.3%) were not sufficient to offset declines in part-time employment (-2.0%).

- A scheduled maintenance turnaround at the Saint John Refinery has led to a 10.8 per cent decline in exports over prior year levels. However, trade is expected to improve as operations return to normal.

- Marginal gains in wood product manufacturing (+1.6%) have not been sufficient to offset weakness elsewhere in the manufacturing sector. Overall, sales are currently down 11.4 per cent over prior year levels, largely due to the refinery turnaround.

- Average weekly earnings are up 2.6 per cent, on a year-to-date basis. This is in line with the national growth rate of 2.7 per cent.
- Consumer spending continues to build on the upward momentum displayed over the second half of 2013, with retail trade up 2.6 per cent, on a year-to-date basis.
- Consumer inflation in the province has averaged 1.6 per cent, on a year-to-date basis, slightly lower than the national growth rate of 1.7 per cent.

## 2014-2015 Fiscal Update

Based on first quarter information, there is a deficit of $387.3 million for 2014-2015. This is a decrease of $3.9 million compared to the budget deficit of $391.1 million.

Net debt is projected to increase $526.5 million year-over-year, a decrease of $4.2 million from the budget estimate of $530.7 million.

Revenues are $6.0 million higher than budget. The major variances include:

- Special Operating Agency revenue is up $15.9 million mostly due to the new Canada/New Brunswick Federal Gas Tax Fund.
- Conditional Grants are up $8.9 million mainly due to federal recoveries for Disaster Financial Assistance.
- Metallic Minerals Tax revenue is higher by $6.3 million due to a tax audit.
- Miscellaneous Revenue is up $5.3 million mainly due to an increase in recovery revenue for the Regional Health Authorities.
- Provincial Real Property Tax revenue is anticipated to be lower by $21.3 million due to changes in the assessment base in the previous year.
- Sales of Goods and Services is down $4.2 million mainly due to a decrease in revenue of $2.5 million for public housing, tuition fees and a decrease in hospital patient revenue.
- Return on Investment is down $2.9 million mainly due to lower than anticipated interest revenue on loans.

## 2014-2015 Fiscal Update

Total expenses are projected to be $2.1 million higher than budget. The major variances include the following:

- **General Government ($10.2 million under):** Projected under-expenditure in Supplementary Funding due to central salaries and other centrally-managed funds.

- **Government Services ($4.0 million over):** Reprioritization of initiatives associated with shared services opportunities.

- **Health ($23.2 million under):** Mainly due to projected under-expenditures in pharmaceutical programs. This is partially offset by a projected over-expenditure in the Medicare program.

- **Post-Secondary Education, Training and Labour ($4.5 million under):** Mainly due to an under-expenditure in the Post-Secondary Affairs program that is offset by a corresponding over-expenditure in the New Brunswick Community College / Collège communautaire du Nouveau-Brunswick Special Operating Agency.

- **Public Safety ($17.1 million over):** Primarily due to Disaster Financial Assistance funding in relation to the spring 2014 flooding. This is mostly offset by additional federal revenue.

- **Transportation and Infrastructure ($9.6 million over):** Due to projected over-expenditures in a number of areas, particularly the Winter Maintenance and Maintenance programs.

## COMPARATIVE STATEMENT OF SURPLUS OR DEFICIT
Thousands
$

| | Year Ending March 31 | | |
|---|---|---|---|
| | 2015 Estimate | 2015 1st Quarter | Variance from Estimate |
| **Revenue** | | | |
| Ordinary Account | 7,677,344 | 7,669,392 | (7,952) |
| Capital Account | 56,311 | 54,862 | (1,449) |
| Special Purpose Account | 62,007 | 61,533 | (474) |
| Special Operating Agencies (net) | 44,727 | 60,588 | 15,861 |
| Sinking Fund Earnings | 195,700 | 195,700 | 0 |
| **Total Revenue** | **8,036,089** | **8,042,075** | **5,986** |
| **Expense** | | | |
| Ordinary Account | 7,894,060 | 7,885,328 | (8,732) |
| Capital Account | 41,926 | 47,997 | 6,071 |
| Special Purpose Account | 69,656 | 69,789 | 133 |
| Special Operating Agencies (net) | 32,448 | 37,452 | 5,004 |
| Amortization of Tangible Capital Assets | 389,124 | 388,772 | (352) |
| **Total Expense** | **8,427,214** | **8,429,338** | **2,124** |
| **Surplus (Deficit)** | **(391,125)** | **(387,263)** | **3,862** |

## COMPARATIVE STATEMENT OF ORDINARY ACCOUNT REVENUE BY SOURCE
**Thousands**
**$**

| | Year Ending March 31 | | |
|---|---|---|---|
| | 2015 Estimate | 2015 1st Quarter | Variance from Estimate |
| **Taxes** | | | |
| Personal Income Tax | 1,508,000 | 1,508,000 | 0 |
| Corporate Income Tax | 251,000 | 251,000 | 0 |
| Metallic Minerals Tax | 0 | 6,300 | 6,300 |
| Provincial Real Property Tax | 481,300 | 460,000 | (21,300) |
| Harmonized Sales Tax | 1,146,500 | 1,146,500 | 0 |
| Gasoline and Motive Fuels Tax | 240,000 | 240,000 | 0 |
| Tobacco Tax | 150,700 | 150,700 | 0 |
| Pari-Mutuel Tax | 600 | 600 | 0 |
| Insurance Premium Tax | 47,205 | 47,505 | 300 |
| Real Property Transfer Tax | 13,000 | 12,000 | (1,000) |
| Large Corporation Capital Tax | 0 | 0 | 0 |
| Financial Corporation Capital Tax | 27,000 | 27,000 | 0 |
| **Sub-total: Taxes** | 3,865,305 | 3,849,605 | (15,700) |
| **Return on Investment** | 253,994 | 251,117 | (2,877) |
| **Licences and Permits** | 138,843 | 138,639 | (204) |
| **Sale of Goods and Services** | 291,607 | 287,444 | (4,163) |
| **Lottery and Gaming Revenues** | 145,730 | 145,730 | 0 |
| **Royalties** | 94,255 | 95,155 | 900 |
| **Fines and Penalties** | 8,164 | 8,061 | (103) |
| **Miscellaneous** | 48,315 | 53,655 | 5,340 |
| **TOTAL: OWN SOURCE REVENUE** | 4,846,213 | 4,829,406 | (16,807) |
| **Unconditional Grants – Canada** | | | |
| Fiscal Equalization Payments | 1,665,950 | 1,665,950 | 0 |
| Canada Health Transfer | 682,400 | 682,400 | 0 |
| Canada Social Transfer | 267,500 | 267,500 | 0 |
| Wait Times Reduction Transfer | 0 | 0 | 0 |
| Other | 1,866 | 1,866 | 0 |
| **Sub-total: Unconditional Grants – Canada** | 2,617,716 | 2,617,716 | 0 |
| **Conditional Grants – Canada** | 213,415 | 222,270 | 8,855 |
| **TOTAL: GRANTS FROM CANADA** | 2,831,131 | 2,839,986 | 8,855 |
| **TOTAL: GROSS ORDINARY REVENUE** | **7,677,344** | **7,669,392** | **(7,952)** |

## COMPARATIVE STATEMENT OF ORDINARY ACCOUNT EXPENSE
Thousands
$

| DEPARTMENT | Year Ending March 31 2015 Estimate | 2015 1st Quarter | Variance from Estimate $ | % | |
|---|---|---|---|---|---|
| Agriculture, Aquaculture and Fisheries | 36,564 | 36,564 | 0 | 0.0% | |
| Economic Development | 98,039 | 98,039 | 0 | 0.0% | |
| Education and Early Childhood Development | 1,085,771 | 1,085,771 | 0 | 0.0% | |
| Efficiency New Brunswick | 8,699 | 8,699 | 0 | 0.0% | |
| Energy and Mines | 9,130 | 9,130 | 0 | 0.0% | |
| Environment and Local Government | 136,903 | 136,853 | (50) | 0.0% | ✓ |
| Executive Council Office | 17,247 | 17,247 | 0 | 0.0% | |
| Finance | 17,967 | 17,917 | (50) | -0.3% | ✓ |
| General Government | 801,776 | 791,568 | (10,208) | -1.3% | ✓ |
| Government Services | 54,961 | 59,010 | 4,049 | 7.4% | ! |
| Health | 2,588,308 | 2,565,069 | (23,239) | -0.9% | ✓ |
| Healthy and Inclusive Communities | 18,537 | 18,437 | (100) | -0.5% | ✓ |
| Human Resources | 3,514 | 3,514 | 0 | 0.0% | |
| Invest NB | 17,638 | 17,638 | 0 | 0.0% | |
| Justice | 42,699 | 42,699 | 0 | 0.0% | |
| Legislative Assembly | 30,001 | 30,001 | 0 | 0.0% | |
| Natural Resources | 101,096 | 101,996 | 900 | 0.9% | * |
| Office of the Attorney General | 18,178 | 19,234 | 1,056 | 5.8% | ! |
| Office of the Premier | 1,628 | 1,628 | 0 | 0.0% | |
| Post-Secondary Education, Training and Labour | 593,812 | 589,314 | (4,498) | -0.8% | ✓ |
| Public Safety | 145,468 | 162,568 | 17,100 | 11.8% | * |
| Service of the Public Debt | 685,000 | 685,000 | 0 | 0.0% | |
| Social Development | 1,092,059 | 1,092,059 | 0 | 0.0% | |
| Tourism, Heritage and Culture | 41,218 | 41,218 | 0 | 0.0% | |
| Transportation and Infrastructure | 273,447 | 283,072 | 9,625 | 3.5% | ! |
| **Subtotal** | **7,919,660** | **7,914,245** | **(5,415)** | **-0.1 %** | |
| Tangible Capital Assets and Interaccount Transactions | (25,600) | (28,917) | (3,317) | 13.0 % | |
| **ORDINARY ACCOUNT EXPENSE** | **7,894,060** | **7,885,328** | **(8,732)** | **-0.1 %** | |

✓ Projected under-expenditure
! Projected over-expenditure
* Offset by additional revenue

**COMPARATIVE STATEMENT OF CHANGE IN NET DEBT**
**Thousands**
**$**

| | Year Ending March 31 | | |
|---|---|---|---|
| | **2015 Estimate** | **2015 1st Quarter** | **Variance from Estimate** |
| Surplus (Deficit) | (391,125) | (387,263) | 3,862 |
| Acquisition of Tangible Capital Assets | (528,705) | (528,047) | 658 |
| Amortization of Tangible Capital Assets | 389,124 | 388,772 | (352) |
| **(Increase) Decrease in Net Debt** | **(530,706)** | **(526,538)** | **4,168** |